Pellet Fuels Institute

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The Honorable Kevin Brady
Chairman
House Ways & Means Committee
Energy Tax Reform Working Group
Washington, D.C. 20003

The Honorable Mike Thompson
Vice Chairman
House Ways & Means Committee
Energy Tax Reform Working Group
Washington, D.C. 20003

Dear Chairman Brady and Vice Chairman Thompson:

The Pellet Fuels Institute (PFI) appreciates the opportunity to share our perspective on energy tax policy in the context of comprehensive tax reform. PFI is a North American trade association promoting energy independence through the efficient use of clean, renewable, densified biomass fuel. Our members are densified biomass fuel (wood pellet) producers and distributors that provide pellet fuel for use in residential and commercial heating applications.

Impact of Existing Tax Code on Biomass Thermal Technologies

Our nation's tax code has long played a key role in shaping and influencing national energy policy. In the renewable energy arena, the code features numerous incentives for most renewable energy technologies in residential, commercial and industrial installations (Sections 25D and 48, respectively for investment tax credits, and section 45 for production tax credits). In its analysis, the Joint Committee on Taxation has listed approximately 80 separate energy-related tax provisions in existing law. Unfortunately, none of these incentives extends to high efficiency biomass thermal energy, despite the fact that biomass thermal energy fulfills all the same public policy objectives as other renewable energy sources, and despite the fact that the Internal Revenue Code recognizes other thermal technologies such as solar and geothermal. The end result is an unlevel energy landscape that promotes certain technologies over others, both limiting consumers' energy choices and their ability to utilize local fuels from landowners and farmers.

Recommendations for Pro-Growth Tax Reform

PFI urges the working group to evaluate tax reform efforts that provide a level playing field for competing energy technologies. Specifically, we propose parity in tax incentives for high efficiency biomass thermal combustion technology to include:

- Eligibility for the 30 percent residential renewable energy tax credit under section 25D of the Internal Revenue Code
- Eligibility for the 30 percent business energy investment tax credit under section 48 for commercial and industrial installations.
- Accelerated depreciation of capital investments similar to what also exists for other renewable technologies, including biomass electric generation.

These incentives will help build a market for high efficiency systems that can reduce American dependence on foreign fossil energy, reduce greenhouse gas emissions, and create jobs and local economic development from a renewable domestic energy resource. Including biomass thermal in Sections 25D and Section 48 will provide the highest possible return for the country in terms of reductions in fossil fuel imports and jobs created. Per dollar of federal support, biomass heating displaces ten times more fossil fuel than solar installations or ethanol and is proven to create a greater number of ongoing jobs. Biomass has accounted for 40 percent of the renewable energy jobs in Germany, more than wind, solar or liquid fuels.

The United States Department of Agriculture (USDA) has estimated that there are 1 billion tons of forest and agricultural residues that can be produced sustainably each year for energy. In regions such as the northeast and north-central states that rely heavily on imported fossil energy for home and business heating, biomass has the potential to greatly reduce our consumption of higher-priced heating oil and propane. The northeast, in particular, is extremely vulnerable to heating oil price shocks and supply disruptions; in that region, biomass can sustainably offset as much as 25% of oil used to heat homes and businesses. The energy savings home and business owners experience through using locally produced fuel is spent locally, producing additional regional wealth and job creation.

Key Questions for the Energy Working Group

PFI recommends that the Energy Tax Reform Working Group first focus on how on the tax code addresses the major end uses of energy. Unknown to many, America's energy consumption can be divided into thirds: roughly one-third transportation, one-third electricity, and one-third heat (or thermal). Energy policy to promote renewable energy has focused almost entirely on transportation fuels such as ethanol and biodiesel, and electricity from hydro, wind, solar, geothermal and biomass. These fuels and technologies have received support from the federal government in the form of production and investment tax credits, accelerated depreciation, research and development funding, direct project grants, and renewable energy credits (e.g. state-level renewable electricity programs).

Although the tax code does address thermal energy in 25D and 48, it primarily promotes generating electricity from biomass and thermal energy from geo and solar systems. Biomass thermal, a proven pathway for reliable, base-load heating and cooling has been omitted from this larger concept of thermal energy.

Second, the Energy Tax Working Group should look to weigh how it determines what technologies are explicitly supported against a technology-neutral approach. Super clean, highly efficient combustion technology is rapidly entering the domestic US marketplace – mostly developed in Europe in response to long-standing industry incentives to encourage technology development. Efficient fuel distribution systems are in place to expand the adoption of central heating systems in home and business heating, industrial process heat, district heating of whole communities, and combined heat and power. This proven technology has been widely deployed in Europe in homes, schools, municipal buildings, factories and any other large institutional, commercial or industrial setting.

Biomass thermal fulfills all the same public policy objectives that are by necessity the basis and justification for renewable energy tax incentives. These include:

- Reduced consumption of foreign fossil energy, thereby increasing America's energy

independence
- Increased efficiency of utilization for equivalent energy output, as compared to biomass electric

- generation and cellulosic biofuels
- Reduced emissions of greenhouse gases due to the carbon neutrality of biomass
- Reduced emissions of certain air pollutants such as sulfur dioxides and mercury, as compared to fossil fuels
- Strengthened local economic development and job creation through domestic production of fuels, system installation and service, and fuel distribution.

Concluding Remarks

The current fiscal environment in which our nation is operating necessitates that taxpayer dollars be deployed in a manner that maximizes return on investment. PFI believes that investment in technologies like biomass thermal that achieve optimal efficiency and job creation potential should be a focus of energy tax reform efforts moving forward.

In time, with increasing market penetration, these incentives can be scaled down or eliminated. With respect to our request to include biomass thermal in section 25D and section 48, we seek authorization only through the 2016 tax year when the investment credits for other technologies sunset. As an example, in Europe, there is a thriving biomass heating business employing tens of thousands of people – and the supply of these fuels continues to be cost competitive, even without ongoing government subsidies. This manufacturing and rural economic success can easily be replicated and improved upon domestically. Crafted correctly, incentives can satisfy the twin objectives of supporting innovation while attracting private capital that is critical to driving long term economic growth. We look forward to working with the Committee as it begins its work on this critical issue.

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